

AR60

UNIVERSITY OF ALBERTA

JUN - 3 1996

REFERENCE DEPARTMENT

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6



1995 Annual Report

Contents

President's Message to Shareholders	1
Review of Operations	2
Auditor's Report	3
Financial Statements	4
Notes to Financial Statements	7
Corporate Information	inside back cover

Notice of Annual General Meeting

The Annual General Meeting of Meota
Resources Corp. will be held:

Thursday, June 13, 1996
at 2:00 p.m. (Calgary time)
at the offices of Burnet, Duckworth & Palmer

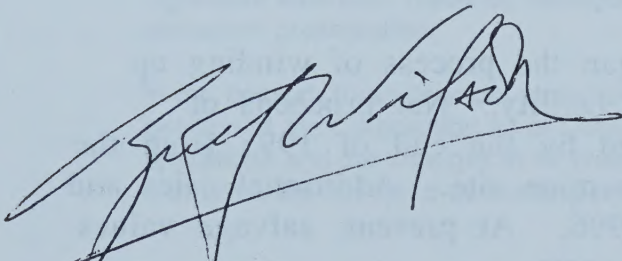
14th Floor - F. L. Burnet Boardroom
First Canadian Centre
350 - 7th Ave. S.W.
Calgary, Alberta

President's Message to Shareholders

During 1995, Meota has been in the fortunate position to rely upon its high quality assets to maintain cash flow while searching to make similar investments in the energy or mining industries. We are not in the position of having to "buy at any price" as our current oil and gas assets have considerable upside in terms of tertiary recovery potential and horizontal drilling prospects.

The financial and operational statements contained in this annual report show that the company is in good financial health. The proceeds of the issuance of the Flow-through Special Warrants in early 1995 and the recent sale of certain of the Lawyers mine milling facility assets resulted in cash resources approaching \$3 million. Meota is using these funds to cover operating and reclamation obligations and to facilitate additional acquisitions.

Meota will continue to selectively review and pursue strategic acquisition opportunities.

A handwritten signature in black ink, appearing to read "W. Brett Wilson", written over a horizontal line.

W. Brett Wilson
President

May 2, 1996

Review of Operations

Throughout the year, Meota's primary assets were its interests in two large oil producing unitized properties in southeastern Saskatchewan and ownership of the Lawyers mine milling facility and related mining claims in British Columbia.

Meota has a 0.224% working interest in the Weyburn Unit which is operated by PanCanadian Petroleum Limited. This unit has been extremely busy during 1995, with equipment upgrades, stimulations and continuation of the "phased" drilling program. In addition, PanCanadian is proceeding with planning and designing of a carbon dioxide flood in the Weyburn Unit. The rate of production of the Unit in 1995 was in the order of 21,000 BOPD or 47 BOPD net to Meota.

Meota also owns a 0.564% working interest in the Midale Unit. Shell Canada Limited is the operator of this Unit. During 1995, eight horizontal wells were drilled and the abandonment and reclamation program continued. There are currently 320 producing wells in this Unit. The average 1995 production was approximately 4,500 BOPD or 25 BOPD net to Meota.

In the fall of 1995, Meota began the process of winding up operations at the Lawyers mine mill facility. Net proceeds of approximately \$900,000 were realized by the end of 1995 from the sale of certain assets at the Lawyers mine site. Additional sales and reclamation work are planned for 1996. At present, salvage values are expected to exceed reclamation costs.

Price Waterhouse

March 22, 1996

Auditors' Report

To the Shareholders of
Meota Resources Corp.

We have audited the balance sheet of Meota Resources Corp. as at December 31, 1995 and 1994 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants

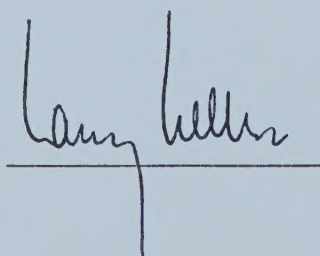
Meota Resources Corp.

Balance Sheet

(stated in thousands of dollars)

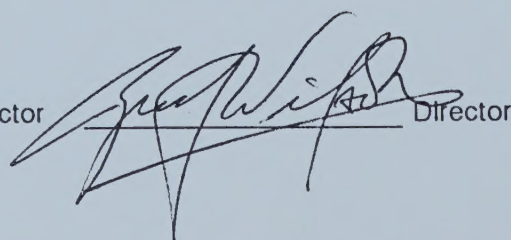
	December 31	
	1995	1994
Assets		
Current assets		
Cash and term deposits	\$ 2,916	\$ 4
Accounts receivable	75	72
Prepays and deposits	17	-
	<u>3,008</u>	<u>76</u>
Property, plant and equipment (Note 3)	<u>1,081</u>	<u>1,107</u>
	<u>\$ 4,089</u>	<u>\$ 1,183</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 152	\$ 480
Due to related party	-	35
Current portion of note payable (Note 4)	1,060	-
	<u>1,212</u>	<u>515</u>
Note payable (Note 4)	-	1,000
Site reclamation and abandonment (Note 5)	<u>878</u>	<u>-</u>
	<u>2,090</u>	<u>1,515</u>
Shareholders' Equity		
Share capital (Note 6)	9,041	6,774
Contributed surplus (Note 7)	56,065	56,066
Deficit	<u>(63,107)</u>	<u>(63,172)</u>
	<u>1,999</u>	<u>(332)</u>
	<u>\$ 4,089</u>	<u>\$ 1,183</u>

Approved by the Board



Director

Director



Director

Meota Resources Corp.

Statement of Operations and Deficit

(stated in thousands of dollars, except per share amounts)

	Year ended December 31	
	1995	1994
Revenue		
Oil and gas sales	\$ 557	\$ 86
Royalties	(143)	(21)
	<u>414</u>	<u>65</u>
Mill lease revenue	184	-
Contracting services	-	209
Interest and other income	89	117
	<u>273</u>	<u>326</u>
	<u>687</u>	<u>391</u>
Expenses		
Minesite operations and contracting services	184	628
Production - oil and gas	127	35
General and administrative	89	963
Interest	74	347
Exploration and reclamation - mining	-	187
Depletion, depreciation and amortization	148	28
Write-down of inventories - mining	-	78
Write-down of marketable securities	-	95
	<u>622</u>	<u>2,361</u>
Net income (loss) for the year	65	(1,970)
Deficit, beginning of year	<u>(63,172)</u>	<u>(61,202)</u>
Deficit, end of year	<u>\$ (63,107)</u>	<u>\$ (63,172)</u>
Net income (loss) per share (Note 9)	<u>\$.005</u>	<u>\$ (0.12)</u>

Meota Resources Corp.

Statement of Changes in Financial Position

(stated in thousands of dollars)

	Year ended December 31	
	1995	1994
Cash provided by (used in) operating activities		
Net income (loss) for the year	\$ 65	\$ (1,970)
Add: Items not affecting cash		
Depletion, depreciation and amortization	148	28
Write-down of inventories - mining	-	78
Write-down of marketable securities	-	95
	<u>213</u>	<u>(1,769)</u>
Increase (decrease) in non-cash working capital, excluding note payable	<u>(383)</u>	<u>811</u>
	<u>(170)</u>	<u>(958)</u>
Cash provided by (used in) financing activities		
Issue of Non-Voting shares	2,267	-
Issue of Common shares	-	2,347
Issue of Class A shares	-	1,100
Costs of the Arrangement (Note 7)	(1)	(427)
Increase in note payable	60	-
Repayment of debt	-	(1,199)
Provision for minesite reclamation	-	(500)
Cash transferred on corporate restructuring (Note 1(k))	-	(139)
	<u>2,326</u>	<u>1,182</u>
Cash (used in) provided by investing activities		
Purchase of fixed assets	(132)	(1,100)
Proceeds on disposal of fixed assets (Note 5)	888	613
Long-term investment	-	(67)
Other assets	-	(1)
	<u>756</u>	<u>(555)</u>
Increase (decrease) in cash	2,912	(331)
Cash and term deposits, beginning of year	<u>4</u>	<u>335</u>
Cash and term deposits, end of year	<u>\$ 2,916</u>	<u>\$ 4</u>

Meota Resources Corp.

Notes to the Financial Statements

(columnar amounts stated in thousands of dollars)

December 31, 1995

1. Corporate restructuring

On December 29, 1994, Cheni Resources Inc. ("CRI") together with West Meota Resource Corporation ("West Meota") made application to the Supreme Court of British Columbia for the Final Order approving an Arrangement (the "Arrangement") under Section 192 of the Canada Business Corporations Act (the "Act"). Such application was granted and the Articles of Arrangement under the Act were filed and the Arrangement became effective December 30, 1994.

Pursuant to the Arrangement, each of the events set out below, among others, was deemed to occur in the sequence set out herein:

- (a) The Corporation contributed \$1,300,000 to CRI in exchange for the issuance to the Corporation by CRI of Common shares of CRI.
- (b) CRI delivered \$1,300,000 to the Corporation in consideration of the issuance by the Corporation to CRI of a note of the Corporation (the "Note") in the principal amount of \$1,300,000, \$300,000 of which could be converted into 1,200,000 Class A shares of the Corporation. (See Note 1(f))
- (c) The Corporation transferred all of its assets other than a mine milling facility and certain other tangible assets and an undivided 5% working interest in certain mineral claims and mining leases to CRI in consideration of the issuance by CRI to the Corporation of that number of Common shares of CRI which taken together with those Common shares of CRI issued pursuant to Note 1(a) equalled the number of issued and outstanding Common shares of the Corporation (being 17,057,684 Common shares). In addition, CRI assumed all of the Corporation's liabilities except those liabilities relating to the decommissioning of the mine milling facility and the reclamation of the mill site.
- (d) An agreement between CRI and the Corporation dated for reference November 24, 1994 relating to the lease by CRI of the mine milling facility became effective. (Note 3)
- (e) The authorized capital of the Corporation was amended to include an unlimited number of Class A shares (the "Class A shares") and an unlimited number of Class B Preferred shares (the "Class B shares").
- (f) \$300,000 of the principal amount of the Notes was converted into 1,200,000 Class A shares of the Corporation.
- (g) Each of the issued and outstanding Common shares of the Corporation was exchanged for 0.20 Class A shares and one Class B share.
- (h) Each Class B share was redeemed by the Corporation by the exchange of one Common share of CRI for each Class B share.
- (i) All of the issued and outstanding Class A Common shares and Class B shares of West Meota were exchanged for 3,380,000 Class A shares. All of the issued and outstanding First Preferred shares of West Meota were exchanged for 260,000 Class A shares.
- (j) The articles of the Corporation were amended to change its name to "Meota Resources Corp."

Meota Resources Corp.

Notes to the Financial Statements

(columnar amounts stated in thousands of dollars)

December 31, 1995

Page 2

- (k) The following is a detailed breakdown of the assets transferred and liabilities assumed outlined in Note 1(c) above:

Cash	\$ 139
Accounts receivable	173
Marketable securities	76
Inventory	59
Prepays	20
Investments	67
Property, plant and equipment	3,868
Other assets	298
Accounts payable and accrued liabilities	(176)
Long-term debt	(7,880)
Provision for minesite reclamation	(500)
Book value of liabilities assumed in excess of assets acquired per Arrangement as described in Note 1(c)	<u>\$ (3,856)</u>

2. Significant accounting policies

(a) Principles of consolidation

Pursuant to the terms of the Plan of arrangement, the Corporation's wholly-owned subsidiary, West Meota, was wound up into the Corporation effective January 1, 1995. In 1994, the consolidated financial statements included the accounts of the Corporation together with its wholly-owned subsidiary, West Meota.

(b) Joint venture operations

Substantially all of the exploration, development and production activities of the Corporation are conducted jointly with others. The financial statements reflect the Corporation's proportionate interest in such activities.

(c) Property, plant and equipment

Oil and gas

The Corporation follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. Such amounts include land acquisition costs, geological and geophysical costs, carrying costs of non-productive properties, costs of drilling productive and non-productive wells, administration costs related to exploration and development activities and related plant and equipment costs.

Unimpaired costs associated with the acquisition and evaluation of significant unproved properties are excluded from amounts subject to depletion until such time as the properties are proved.

The provision for depletion and depreciation is determined using the unit-of-production method based on gross proved reserves of oil and gas. Reserves and production of gas and associated liquids are converted into equivalent barrels of oil based on relative energy content.

Meota Resources Corp.

Notes to the Financial Statements

(columnar amounts stated in thousands of dollars)

December 31, 1995

Page 3

Gains or losses on the disposition of oil and gas properties are not recognized in the statement of operations unless the depletion and depreciation rate would be changed by 20% or more.

Oil and gas properties are subject to a ceiling test under which their carrying value, net of deferred income taxes and accumulated provision for site reclamation and abandonment costs, is limited to the undiscounted future net revenue from production of estimated proved oil and gas reserves, based on year end prices, plus the unimpaired costs of unproved properties less estimated future administration, interest, site reclamation and abandonment costs and income taxes.

(d) Site reclamation and abandonment

Estimated site reclamation and abandonment costs are provided for using the unit-of-production method. The annual provision is included in depletion and depreciation expense.

3. Property, plant and equipment

	1995		1994
	Cost	Accumulated depletion and depreciation	Net book value
Oil and gas properties	\$ 1,230	\$ 160	\$1,070
Furniture and equipment	2	-	2
Mill	10	1	9
	<u>\$ 1,242</u>	<u>\$ 161</u>	<u>\$1,081</u>

4. Note payable

The Cheni Note as described in Notes 1(b) and (f), is repayable, with interest at 6%, in equal quarterly instalments at the beginning of each of the first, second, third and fourth quarters of 1996. The Note is secured by a first charge on the Mill and a floating charge on all the other assets of the Corporation; the floating charge is subordinate to all other repayment obligations with respect to borrowed monies, including shareholders' loans.

5. Site reclamation and abandonment

The Corporation has entered into a five year lease agreement with CRI with respect to the mill facility. The annual lease payment is based on the amount of mineral ore processed at the mill, plus an amount equal to all operating, maintenance and other expenses related to the facility.

As discussed in Note 1(c), the Corporation is responsible for certain costs of the reclamation of the millsite obtained through the Arrangement. During the year, the Corporation received net proceeds from the sale of approximately 60% of the mill assets totalling \$888,250. These assets were recorded in the accounts at a cost of \$15,000. The net gain of \$873,250 has been recorded as a liability to fund the future reclamation costs of the millsite.

Management has also provided for the estimated site reclamation liability on oil and gas properties totalling \$5,000 (1994 - \$0).

Meota Resources Corp.

Notes to the Financial Statements

(columnar amounts stated in thousands of dollars)

December 31, 1995

Page 4

6. Share capital

(a) Authorized

Unlimited number of Non-Voting shares without par value

Unlimited number of Class A shares without par value

Unlimited number of First Preferred shares without par value and issuable in series

Unlimited number of Second Preferred shares without par value and issuable in series

(b) Issued

Common shares

	Number of shares	Value
Balance, December 31, 1993	13,928,282	\$ 51,392
Issued during 1994 pursuant to:		
Subscription Agreement	3,029,402	2,291
Mineral property option payments	100,000	56
Redeemed and cancelled pursuant to the Arrangement	(17,057,684)	(53,739)
Balance, December 31, 1994 and 1995	-	\$ -

Class A shares

	Number of shares	Value
Balance, December 31, 1993	-	\$ -
Issued during 1994 pursuant to the Arrangement:		
On conversion of part of the Note Payable (Note 1(f))	1,200,000	300
In exchange for Common shares (Note 1(g))	3,411,536	5,374
In exchange for all the issued and outstanding shares of West Meota (Note 1(i))	3,640,000	1,100
Balance, December 31, 1994 and 1995	8,251,536	\$ 6,774

Non-Voting shares

	Number of shares	Value
Balance, December 31, 1994	-	\$ -
Issued during 1995	8,250,000	2,267
Balance, December 31, 1995	8,250,000	\$ 2,267

Meota Resources Corp.

Notes to the Financial Statements

(columnar amounts stated in thousands of dollars)

December 31, 1995

Page 5

Class B Preferred shares

	Number of shares	Value
Balance, December 31, 1993	-	\$ -
Issued during 1994 in exchange for Common shares pursuant to the Arrangement	17,057,684	48,365
Redeemed and cancelled pursuant to the Arrangement	(17,057,684)	(48,365)
Balance, December 31, 1994 and 1995	-	\$ -

Conditional warrants

The Company issued \$8,250,000 Flow Through Special Warrants during the year. Each Special Warrant entitled the holder to acquire one Non-Voting share and one-half Conditional Share Purchase Warrant. At the end of the year, 4,125,000 Conditional Share Purchase Warrants remain outstanding. Each Conditional Warrant entitles the holder to acquire, for \$0.35 per whole share on or before June 30, 1997, that proportion of a share equal to the proportion of the subscription price of the Special Warrant that the Corporation does not incur or renounce to the Subscriber, effective on or before December 31, 1996. As at December 31, 1995, no amounts had been renounced under this agreement.

(c) Stock Option Plan

At the annual general meeting on June 15, 1995, the shareholders approved a stock option plan for the granting of options to purchase up to 10% of the issued and outstanding shares of any class.

Subsequent to year end, the Company granted 825,000 Class A share options. The options have an exercise price of \$0.253 and expire on January 5, 2000. Regulatory approval has been requested.

7. Contributed surplus

	Year ended December 31	
	1995	1994
Balance, beginning of year	\$56,066	\$ 5,572
Redemption and cancellation of Class B Preferred shares	-	47,065
Book value of liabilities assumed in excess of assets transferred to CRI (Note 1(k))	-	3,856
Costs of the Arrangement	(1)	(427)
	<u>\$56,065</u>	<u>\$56,066</u>

Meota Resources Corp.

Notes to the Financial Statements

(columnar amounts stated in thousands of dollars)

December 31, 1995

Page 6

8. Income taxes

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined Federal and Provincial corporate income tax rate of 44.58 percent as follows:

	Year ended December 31	
	1995	1994
Expected income tax (recovery)	\$ 29	\$ (1,970)
Add (deduct):		
Crown royalties	33	5
Resource allowance	(37)	(10)
Tax benefit from prior year losses	(25)	-
Tax benefit not recognized on current year losses	-	1,975
	<u>\$ -</u>	<u>\$ -</u>

At December 31, 1995, the Corporation had approximately \$64 million of tax deductions available in excess of book deductions to reduce future income. The deductions consist of \$60.4 million in tax pools, \$3.5 million of non-capital losses and \$454,000 of capital losses. The related benefit of these deductions has not been recorded in the accounts and may be applied to reduce the income tax provision in future years.

9. Net income (loss) per share

The net income (loss) per share is calculated based on the weighted average number of Class A and Non-Voting shares outstanding of 13,563,180 (1994 - 15,748,647).

Corporate Information

Head Office

Meota Resources Corp.
301, 404 - 6th Ave. S.W.
Calgary, Alberta
T2P 0R9

main: 403-262-0692

fax: 403-262-0699

Auditors

Price Waterhouse
Calgary, Alberta

Solicitors

Burnet, Duckworth & Palmer
Calgary, Alberta

Transfer Agent Registrar

Montreal Trust
Calgary, Alberta

Stock Exchange Listing

Voting Common:
MRZ.A (Alberta)

Directors

Kenneth M. Bagshaw
Vancouver, B.C.

Robert G. McMorran
Vancouver, B.C.

W. Brett Wilson
Calgary, Alberta

Larry G. J. Moeller
Calgary, Alberta

Officers

W. Brett Wilson
President
Calgary, Alberta

Larry G. J. Moeller
V.P. Finance
Calgary, Alberta

Pamela A. Janzen
V.P. Operations
Calgary, Alberta

Darlene Haslam
Controller
Calgary, Alberta

John A. Brussa
Corporate Secretary
Calgary, Alberta

